



PHILIP MORRIS LIMITED

Modern Slavery and Human Trafficking Statement for 2021

This is a modern slavery statement under section 54 of the Modern Slavery Act 2015 (Modern Slavery Act or the Act) made in respect of Philip Morris Limited (hereinafter, PML). This statement sets out the steps taken by Philip Morris International (hereinafter, "PMI") as a wider group to prevent modern slavery and human trafficking in its business and supply chains.

PML submits this statement on behalf of itself in respect of the period 1 January 2021 to 31 December 2021 (Reporting Period). This statement is based on and should be read in conjunction with [PMI's 2021 Integrated Report](#).

Introduction

PMI is a leading international tobacco company engaged in the manufacture and sale of smoke-free products and accessories, as well as cigarettes. PMI is working to deliver a smoke-free future evolving its portfolio for the long-term to include products outside of the tobacco and nicotine sector. The company's current portfolio primarily consists of cigarettes and smoke-free products, including heat-not-burn, vapour, and oral nicotine products, which are sold in markets outside the United States.

PMI is a global company, selling products in around 180 markets; employing approximately 69,600 people worldwide; and operating 38 production facilities, of which 8 are partially or fully dedicated to manufacturing smoke-free products.

We are committed to continually reviewing and improving our practices to ensure that we are taking all appropriate steps both to reduce the risk of modern slavery and forced labour in all aspects of our business and in support of the global efforts to eradicate all forms of modern slavery.

PMI publishes its modern slavery statement in compliance with the Act. In this statement, we adopt the meaning of modern slavery as defined in the Act.



Find out more about PMI at: www.pmi.com/who-we-are

Our Strategy, Business Structure & Supply Chains

Our Strategy

PMI is striving to become a company that has a net positive impact on shareholders, consumers, the environment and society. Our ambition starts with researching, developing, and commercialising less harmful alternatives to cigarettes for those adults who otherwise would continue to smoke, ultimately allowing us to phase out cigarettes and become a fully smoke-free business. As a next step, PMI is expanding its offerings to include products that fill critical unmet needs within the wellness and healthcare space. To achieve our purpose, a radical transformation of our business, of our entire value chain, as well as of the way we engage with society is required: sustainability stands at the core of this transformation.

Our comprehensive strategy thus recognises the need to address Environmental, Social, and Governance (ESG) issues related to our products and business operations. In this regard, we must responsibly manage the impacts of our company’s operations throughout the value chain. While on the environmental front, this means tackling climate change and preserving natural ecosystems, from a social standpoint, this includes ensuring fair treatment and empowerment of our employees and improving the lives of people across our supply chain.

Our Business Structure

Philip Morris Limited (Company Number: 03619145) (PML) is a private limited company registered in England. PML has a registered office at 10 Hammersmith Grove, London, W6 7AP.

PML is responsible for the sale and merchandising of PMI brands in the UK and Ireland. These brands include our range of smoke-free products including IQOS (electronic heated tobacco product) and HEETS (tobacco sticks used in IQOS). They also include our combustible product brands of Marlboro and Chesterfield. PML has over 350 employees in the UK and Ireland.

Our Supply Chain

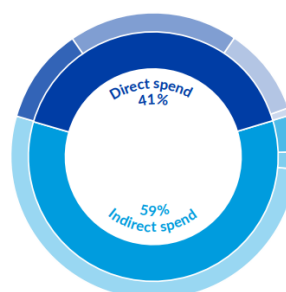
Our supply chain connects us with millions of people, from the farmers cultivating tobacco and other agricultural products to workers at the supplier companies that provide the products and services used in our products or necessary to run our business, impacting people’s assets, capabilities, opportunities, and standards of living.

Our supply chain accounts for a significant part of our social and environmental footprint. With an increasingly integrated and globalised value chain, balancing the security of our supplies with cost efficiency and high quality, environmental, and social standards is a major priority and challenge. Moreover, as our business transforms, our supply chain evolves as well. Promoting fair working and living conditions in our broader supply chain is therefore increasingly important.

With over 29,000 tier 1 suppliers across more than 180 markets, PMI’s supply chain amounted to approximately USD 11.1 billion in 2021. PMI’s global supply chain is organised into two main streams — direct spend (materials used in the manufacture of our finished products) and indirect spend (goods and services necessary to operate our business). See Figure 1 below.

PML imports its combustible and reduced risk products. As a distributor, PML procures goods and services for the purpose of distributing these products to wholesale, retail customers and exclusively reduced risk products to direct e-commerce consumers.

Fig 1: 2021 Supply Chain Spend










Source: PMI’s 2021 Integrated Report

DIRECT SPEND		41%
Tobacco leaf	sourced from approximately 254,000 contracted farmers across 21 countries	11%
Direct materials	used to produce and package our products (e.g., cellulose acetate tow for cigarette filters, paperboard for packaging, and nontobacco agricultural products such as menthol and guar gum)	19%
Electronic devices	and accessories for heated tobacco and vapor products	10%
Advanced procurement	to establish capabilities and supply sources to support PMI’s innovation pipeline	1%
INDIRECT SPEND		59%
Technical procurement	to source the manufacturing equipment used in our factories	4%
R&D expenditure	enabling us to conduct advanced research (e.g., by acquiring clinical trials services and laboratory equipment)	2%
Indirect materials and services	necessary to run our business, such as IT, office equipment, and consulting services	53%

PMI's Sustainability Index

Source: [PMI's 2021 Integrated Report](#)

	Key performance indicators	2021 performance	2025 aspirations	KPI weight	Contribution to total index score
	① Smoke-free product shipment ratio (smoke-free/total)	12.8%	>30%	85%	
	② Smoke-free product adjusted net revenue ratio (smoke-free/total)	29.1%	>50%		
	③ Number of markets where PMI smoke-free products are available for sale	71	100		
	④ Proportion of markets where PMI smoke-free products are available for sale that are low- and middle-income markets	43%	>50%		
	⑤ Total number of users of PMI's smoke-free products (in millions) ¹	21.7			
	⑥ Proportion of shipment volume covered by markets with youth access prevention programs in place in indirect retail channels.	91%	>90%		
	⑦ Annual net revenue from wellness and healthcare products (in billions USD)	0.1	≥1	15%	
	⑧ Proportion of shipment volume covered by markets with anti-littering programs in place for combustible cigarettes	n/a	≥80%		
	⑨ Proportion of shipment volume covered by markets with end-of-life take-back programs in place for smoke-free consumables	9 pilots	≥80%		
	⑩ Proportion of PMI smoke-free devices with eco-design certification	n/a	100%		
	⑪ Cumulative number of smoke-free electronic devices refreshed or repaired since 2021 (in thousands)	62	1,000		
Product Sustainability				100%	67%
	⑫ Proportion of women in senior roles	31.1%	35%	50%	
	⑬ Proportion of PMI employees who have access to structured lifelong learning offers	n/a	70%		
	⑭ Cumulative number of human rights impact assessments conducted since 2018, with findings addressed	5	10		
	⑮ Prevalence of child labor among contracted farmers supplying tobacco to PMI	1.8%	0%		
	⑯ Proportion of contracted farmers supplying tobacco to PMI who make a living income	67%	100%		
	⑰ Net carbon emissions in scope 1+2 (in thousands of metric tons)	357	0	50%	
	⑱ Absolute carbon emissions reduction in scope 3 versus 2019 baseline (in line with science-based target)	17%	25%		
	⑲ Proportion of tobacco purchased at no risk of deforestation of managed natural forest and no conversion of natural ecosystems	37%	100%		
Operational Sustainability				100%	33%
SUSTAINABILITY INDEX					100%

¹ During 2022, we intend to develop a new 2025 aspiration related to the total number of users of PMI smoke-free products. See [page 45](#).

Risks of Modern Slavery Practices in Our Operations & Supply Chain

PMI aims to purchase goods and services from suppliers at best value, commensurate with business requirements, while appropriately managing supply, financial, legal, quality, and sustainability requirements.

As a company, we seek continuously to identify and address current and potential human rights risks while also seizing opportunities to create a positive impact in the communities in which we and our suppliers operate, thereby increasing the sustainability performance of our supply chain.

From a sustainability standpoint, and with specific reference to the issue of modern slavery, the supply chain areas potentially exposed to the highest risks pertain to our direct spend and include:

- Tobacco production (particularly across Africa, Asia, and South America), with the main risks in the areas of working conditions, child labour, climate change, access to water, and the socioeconomic well-being of farming communities;
- Electronics manufacturing, with the main risks relating to working conditions.

PMI takes a risk-based approach to identify, prevent, and mitigate incidents related to human rights and labour rights throughout our supply chain. For this undertaking, we collaborate with key stakeholders — such as suppliers, farmers and farmer associations, civil society organisations, academics, governments, and the private sector — to more effectively tackle persistent and systemic issues in the agricultural sector.

Actions Taken to Assess and Address Modern Slavery Risks

A. Our Policy Framework

As an affiliate of PMI, PML recognises that respecting human rights is fundamental to operating a sustainable global business.

PMI has developed a strong policy framework and strong due diligence processes across its operations, comprising:

- Our [Human Rights Commitment](#);
- Our [Guidebook for Success \(or PMI Code of Conduct\)](#);
- Our [Agricultural Labour Practices](#) (“ALP”) Code;
- Our [Responsible Sourcing Principles](#) (“RSP”).

In the Reporting Period, PML continued to follow these policies and processes to reduce the risk of modern slavery practices in its operations and supply chains.

Key policies include:

1. Human Rights Commitment

In 2017, PMI published its Commitment to Human Rights (“HRC”) as the basis of our human rights programme. One of the fundamental principles states that PMI considers forced or trafficked labour to be unacceptable. It also states that we are committed to identifying any form of modern slavery in our operations and value chain. We will act against practices that force workers to pay recruitment fees, confiscate their personal papers, or deceive workers during recruitment — as and when they are identified.

2. Responsible Sourcing Principles (RSP)

The way we work is grounded in our RSP. The RSP are aligned with the UN Guiding Principles on Business and Human Rights (UNGPs), the UN Global Compact and the relevant International Labour Organisation Conventions.

The RSP, together with the accompanying [implementation guidance](#), set process and performance standards for our suppliers.

Responsible Sourcing Principles (cont'd)

With regards to modern slavery, the RSP more specifically require our suppliers to:

- Not engage in or condone the use of forced or trafficked labour;
- To be diligent in order to identify and address any form of modern slavery in their operations and supply chain, including prison, bonded, enslaved or any other form of forced labour;
- Arrange loans or salary advancements based on fair terms, clearly explained to the worker and mutually agreed;
- Not retain or confiscate the personal papers of any worker including their passports;
- Not allow workers to pay recruitment, processing or placement fees; and
- Agree with all workers on the terms of their employment in writing at the point of recruitment.

3. Agricultural Labour Practices (ALP)

Since 2011, PMI has implemented the ALP programme aimed at eliminating child labour and other labour abuses, achieving safe and fair working conditions, and offering a decent livelihood for all farmers in our tobacco leaf supply chain.

The ALP Code defines the labour practices, principles and standards we expect to be met by all tobacco farmers which PMI or PMI's suppliers have contracts with to grow tobacco. It has seven principles (including no forced or child labour or human trafficking) and 33 measurable standards.

We do not condone and do condemn child, forced and other labour abuses and we are working tirelessly to remove any incidents from our supply chain. We do not employ children or forced labour in our company.

We aim to deliver a set of targets to improve the socioeconomic well-being of tobacco-farming communities, including*:

- 100 percent of contracted farmers supplying tobacco to PMI make a living income by 2025;
- Zero child labour in our tobacco supply chain by 2025;
- 100 percent of tobacco farmworkers paid at least the minimum legal wage by 2022.

* Note that in 2020 PMI delivered and reported on the achievement of two ALP targets: 1) 100 percent of tobacco farmworkers provided with safe and decent accommodation and 2) 100 percent of farmers and workers having access to personal protective equipment (PPE) for the application of crop protection agents (CPA), and prevention of green tobacco sickness (GTS) for all those working on tobacco.

4. Guidebook for Success

Human rights considerations are included in our code of conduct — the "[Guidebook for Success](#)" — and its accompanying set of Principles and Practices, which apply to all PMI employees. Our Guidebook for Success describes the fundamental beliefs that guide our work at PMI. Honesty, respect, and fairness are core values that embody our commitment to society. We strive to maintain a strong ethics and compliance culture through a combination of:

- Principles and practices which provide specific guidance on key topics;
- Training and communications which build understanding and commitment; and
- Diligent and fair investigation processes for suspected misconduct combined with proportionate disciplinary action. Together these reinforce a culture of speaking-up and give confidence in organisational justice.

Our Guidebook for Success, together with its supporting Principles and Practices, covers the core risk areas such as: environment, health, safety and security, supply chain management, responsible marketing and sales, workplace and labour practices, privacy protection, and anti-bribery.

The Guidebook is available in 45 languages on the PMI website and employees can access it at all times on their company mobile devices.

B. *Training and awareness raising focused on Modern Slavery*

Beside our policy framework, embedding an ethos of respect for human rights in our corporate culture starts with awareness-raising and training.

For this, we developed globally a Business and Human Rights e-learning programme with the aim to bring our 'Human Rights Commitment' to life by giving all employees a clear understanding of what human rights are, how they relate to the business, to each employee and the wider value chain, and their role in helping to safeguard them. Among other things, the training covered the relevant internal policies and procedures regarding modern slavery and our supply chain.

Assessing the Effectiveness of Our Actions

Human rights risks are incorporated into our overall integrated risk assessment, our Sustainability Index (see pg. 47, [PMI 2021 Integrated Report](#)), our compliance program, our supplier due diligence and evaluation processes, and our ALP monitoring and remediation system deployed on the tobacco farms contracted by PMI and our suppliers. We periodically conduct human rights risk assessments to proactively identify and mitigate potential adverse human rights impacts across our value chain. While PML is not indicated as a high-risk market in terms of potential human rights violations, on a global level, PMI has identified ten high risk countries, both from which we source tobacco and where we conduct operations i.e., Argentina, Mexico, Malawi, Mozambique, Turkey, Indonesia, India, the Philippines, Malaysia, and Pakistan.

1. Human Rights Impact Assessment (HRIA)

To strengthen our due diligence framework, proactively identify risks and mitigate potential adverse impacts in our operations and value chain, we aim to conduct HRIAs in the 10 highest-risk countries in which we operate by 2025. Our HRIAs are carried out by independent expert organisations.

The list of high-risk countries is determined — and periodically reviewed — based on PMI's footprint (e.g. presence of manufacturing operations and type of supply chain) and the country's human rights risk profile, as determined by internationally recognised indicators such as the Heidelberg Conflict Barometer, the Freedom House Freedom of the World Index, the U.S. Trafficking in Persons Report, and Transparency International. These assessments follow a formal process, are conducted in accordance with the UNGPs and comprise five steps:

1. Preparation: reviewing PMI policies, procedures, and controls;
2. Methodology and research: defining the method and scope of the assessment – identifying the "rights-holders" to interview, PMI facilities to visit, and external stakeholders to engage with;
3. Assessment in country: completing interviews and visits with "rights-holders," such as factory workers, contracted employees, trade union representatives, suppliers, third-party staff, as well as external stakeholders, such as nongovernmental organisations (NGOs), local authorities, trade associations, and international human rights organisations;
4. Integration: developing recommendations and an action plan, timeline and accountability programme to implement these recommendations; and
5. Reporting: updating on progress and learnings.

To date, we have conducted HRIAs in Mexico, the Philippines, Mozambique, Russia, Turkey (industry-wide and multi-stakeholder Supply Chain Impact Assessment), and Malaysia (which incorporated potential human rights risks resulting from our downstream supply chain for the first time, including some of our *IQOS* retailers).

Human rights impact assessments cont'd

In 2021, we have further strengthened our global human rights due diligence process through continued capacity building, impact assessments, effective action in response to findings, monitoring and reporting. We performed the following:

- a. Implementation of the HRIA action plans in Mexico, Russia, Mozambique and the Philippines;
- b. Global development of a “self-service” HRIA process and toolkit that will enable our medium- and low-risk country affiliates to identify and address salient human rights risks in their markets;
- c. Integration of human rights risks into our overall Integrated Risk Assessment (IRA) for analysis by management teams worldwide;
- d. Continued roll-out of our award-winning e-learning across our organisation.

2. Sustainable supply chains

In relation to our direct materials supply chain, in order to strengthen our approach in 2021 further, PMI successfully transitioned its non-electronics supplier due diligence program to EcoVadis, the leading global service provider of online ESG supplier assessments, allowing to access a vast number of suppliers' ESG scorecards commissioned by EcoVadis users (see pg. 214 and 243, [PMI 2021 Integrated Report](#))

In relation to our electronics supply chain, in January 2021, PMI joined the RBA, the electronics industry initiative for sustainable supply chains. During the first year of membership, PMI was able to leverage RBA's best-in-class methodologies and tools, including members' audit reports, to enhance significantly the evaluation and performance of our suppliers.

PMI also participated in RBA's Validated Assessment Program (VAP) — the standard for on-site compliance verification and effective, shareable audits. Under the program, independent external auditors reviewed PMI's electronics suppliers' sustainability performance against the RSP.

3. ALP Program

We have a robust due diligence framework in place to evaluate the implementation of our ALP Code, enabled by the traceability at farm-level provided by our integrated production system and systematic monitoring of farms by field technicians. If issues are identified that require immediate intervention, called “Prompt Actions”, the field technicians address them with the farmer and together they develop an improvement plan against which progress is monitored.

In 2021, 2,530 field technicians contracted by either PMI or our leaf suppliers systematically monitored the implementation of the principles and measurable standards of ALP on 91 percent of all 253,813 contracted farms.

Field technicians reported a total of 9,918 prompt actions across all sourcing markets, of which 76 percent related to safe working environment issues, 11 percent to child labour incidents, and 13 percent to income and working hours. In total, 86 percent of the prompt actions raised were resolved during the year, with the remaining 14 percent of prompt actions followed-up yet not resolved, predominantly due to the timing of the crop stage.

In addition, external assessments are conducted by Control Union, an independent third-party organisation, to evaluate the management system in place for ALP implementation, reviewing prompt action protocols and procedures to identify, record, and address issues, while also examining the internal capacity to implement the ALP program. Control Union also evaluates labour practices at farm level, assessing compliance with the ALP measurable standards. Reports from Control Union are available on [PMI.com](#).

ALP Program cont'd

Furthermore, specialised local expert partners provide external verification of our understanding of progress being made on the ground, challenge our monitoring data, evaluate the effectiveness of our initiatives, and ultimately, better assess our impact.

We have developed and are implementing action plans to address recurrent issues in collaboration with key stakeholders, including Verité, local NGOs, and governments.

The vast majority of our relationships with contracted farmers feature a shared commitment to continuously improve addressing social issues. In the event of noncompliance and continued failure to address gaps, we may end our business relationship with that farmer. In 2021, 875 contracts were terminated due to ALP violations.

To further support compliance with our ALP Code, we revamped training materials and, with the guidance of Verité, our strategic partner on ALP, developed a learning framework applicable to ALP professionals and field technicians around the world.

This updated and standardised curriculum will ensure that suppliers and field technicians receive consistent guidance about their responsibilities, the principles, and standards they are expected to uphold, and the skills needed to carry out their work. The content has been updated to reflect the current state of the ALP program, including a specific, mandatory module on forced labour and modern slavery.

4. Guidebook for Success – Employee training

Our Guidebook for Success (PMI's code of conduct) sets clear standards and expectations. Its mandatory provisions apply to all PMI employees, officers, and directors. In 2021, 71.3 percent of PMI employees received training related to topics in the Guidebook for Success. With third-party training sessions included, this equated to 261,890 completed training sessions. Key topics addressed in the training sessions include workplace integrity, speaking up, responsible marketing, privacy, intellectual property, insider trading, information protection, competition law, and anti-corruption.

5. Grievance Mechanisms

Providing access to effective grievance mechanisms in our operations and our supply chain is a key requirement of the UNGPs and a core element of our due diligence. Internally, we maintain clear policies, run regular training and work to ensure processes are robust, encouraging employees to speak up if things don't seem right or can be improved. The same applies to PMI's supply chain, where we believe everyone should have a voice and be able to seek help. In our RSPs, we specifically ask suppliers to provide their workers with easily accessible ways to raise concerns, free from risk of retaliation. Moving forward, PMI will continue efforts to provide better access to grievance mechanisms throughout our operations and supply chain.

6. Human rights recognition for PMI in 2021

In 2021, PMI was recognised for its efforts to tackle modern slavery. For example:

- Our Business and Human Rights e-learning was awarded the 2021 Brandon Hall Group Gold Excellence award for Best Advance in Custom Content.
- PMI's efforts to respect and promote human rights were recognised by the Dow Jones Sustainability Index, achieving an industry-leading score for its corporate sustainability assessment.
- Best practices stemming from PMI's ALP program were included as part of the International Cocoa Initiative's (ICI) report on Child Labour Monitoring and Remediation Systems in the West African Cocoa Sector.

Transparency on both the challenges and successes of our ALP program is critical because it lets us hear feedback from stakeholders on how best to tackle systemic issues. To that end, we publish regular updates, which we make available on PMI.com. Our first quarter ALP Progress Update in 2021 focused on PPE and accommodation. In 2021, we commemorated the 10th anniversary of our ALP program with [a dedicated report](#) in which we reflected on progress made, celebrated achievements, and recognised the challenges ahead.

Plans for Future Action

Our Human Rights Roadmap helped us establish strong foundations and a more structured approach in our work related to human rights. The maturity acquired so far helped us establish ambitious targets across all functions to be delivered by 2025.

Although the focus will be to achieve these targets, we will continue listening to our stakeholders, learning from our current control mechanisms, reinforcing our due diligence and remediation processes, and staying up to speed with external and internal developments.

In 2022, we intend to:

- Review our Commitment to Human Rights to identify potential opportunities to strengthen it;
- Upgrade our Responsible Sourcing Principles to integrate new trends, external requirements, our latest sustainability materiality assessment, and refreshed corporate priorities;
- Publish our first Human Rights Report proactively and effectively communicate our commitment to respect human rights in our operations and across our value chain;
- Translate our human rights e-learning into seven additional languages spoken at PMI to roll it out further across our organisation;
- Analyse the recommendations generated by the human rights saliency mapping of our electronics supply chain and leverage our Responsible Business Alliance (RBA) membership to address suppliers' RBA audit findings and other areas of improvement;
- Roll out the revamped ALP material through webinars following a “train the trainer” initiative with suppliers.

More information on PMI's approach and performance on environmental, social and corporate governance issues, including modern slavery and human trafficking, can be found in PMI's Integrated Report.

Impact of Global Situations

In 2021, PMI was also recognised for its efforts to tackle modern slavery. For example in 2021, the world—and our company—continued to navigate the far-reaching impacts of global situations such as the COVID-19 pandemic and more recently the Russian invasion of Ukraine. Our priority remained to protect the health, safety, and well-being of our employees and address the needs of our stakeholders while relentlessly working toward our purpose of achieving a smoke-free future. For further information, please refer to PMI's Integrated Report 2021.

Approval of Statement

This statement was approved by Christian Woolfenden who has been authorised to sign this statement on behalf of the Board of Directors.

CHRISTIAN WOOLFENDEN

Managing Director

Philip Morris Limited UK & Ireland

July 2022